



# Strategy AFM 2020-2022



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01

# Summary



This strategy document outlines the focus areas of the AFM in the coming years. The AFM's strategy for 2020-2022 builds on the renewal and strengthening of its supervision initiated in recent years, and includes adaptation to external developments. The AFM's supervision covers four areas: financial services, capital markets, asset management and auditing. The strategy sets the key priority in each area for the coming years. The AFM aims to achieve its supervisory targets by being proactive, data driven and influential.





## The financial sector is changing

The financial sector is becoming digitalised, and the use of data and technology is the driving force behind innovations. Existing institutions are increasingly working with fintech parties and the digitalisation of financial services is growing in importance. This brings with it an increasing threat of cyber criminality. Interest rates have been at historically low levels for a long time, which poses continuing risks for the financial sector. There has been a large volume of European regulation in recent years that materially affects the financial sector. There will likely be further new regulation in relation to initiatives designed to bring about a European capital markets union. The political situation is uncertain, due to factors such as Brexit and the trade tensions between the US and China. In addition, the financial sector increasingly has to anticipate the transition to a sustainable economy and society. Investors are for instance looking beyond the hard figures and increasingly require information on companies' environmental performance (as well as whether their strategies and earnings models are future-proof).

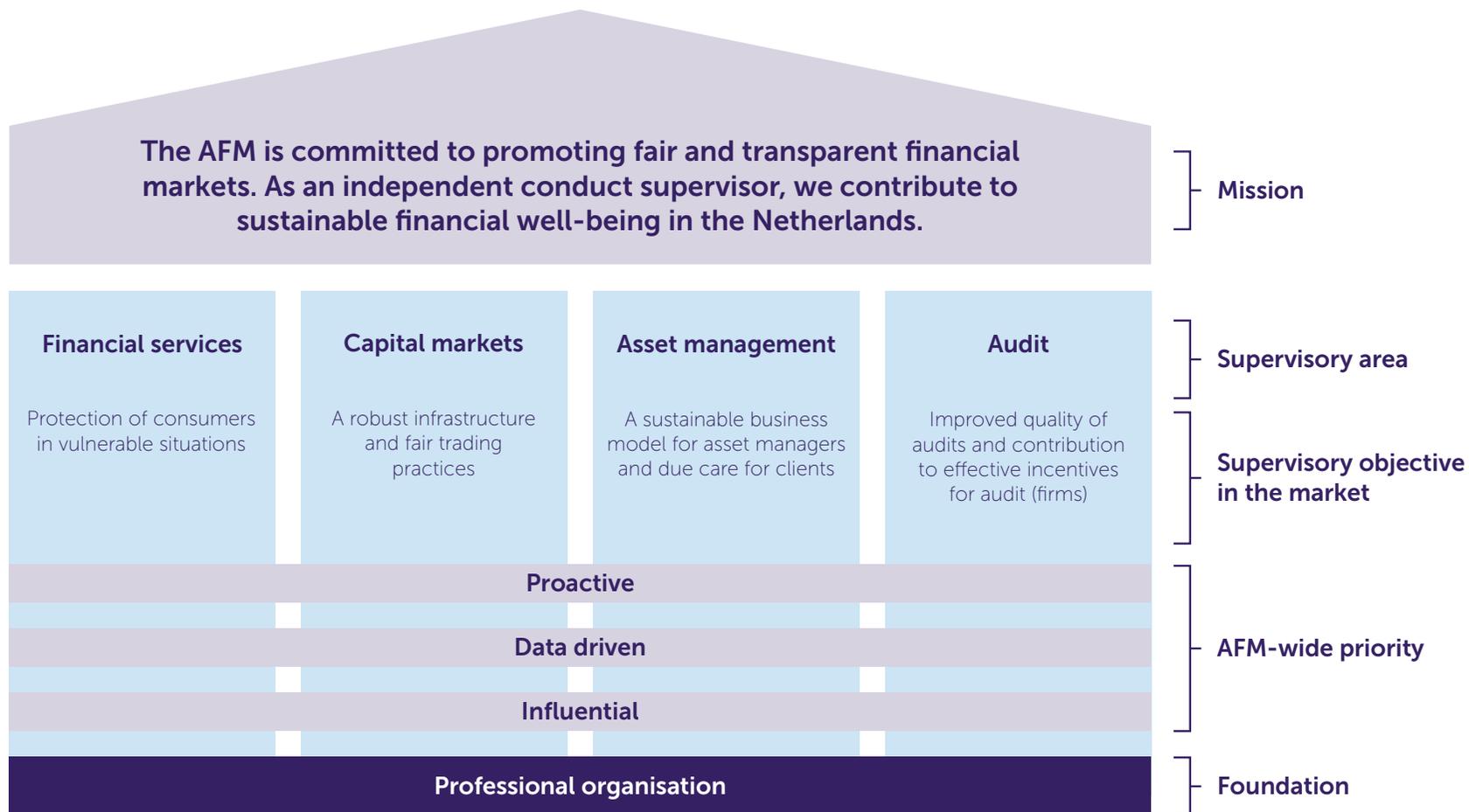
## Strategy 2020-2022

The AFM needs to revise its strategy in order to achieve its goals for 2022. Its mission has not changed. It remains: *'The AFM is committed to promoting fair and transparent financial markets. As an independent conduct supervisor, we contribute to sustainable financial well-being in the Netherlands.'* The AFM's strategy for 2020-2022 builds on the renewal and strengthening of its supervision initiated in recent years, and includes adaptation to external developments. The strategy is summarised on the next page.



### Strategy by area of supervision

The AFM's supervision covers four areas: financial services, capital markets, asset management and auditing. Our goals in each area are briefly explained below. The AFM will achieve its supervisory goals by being proactive, data driven and influential. These are the three AFM-wide priorities. Further details are provided in the following sections.





### Financial services

Much progress has been made in financial services with respect to giving a central priority to the customer's interests. At the same time, the outside world has seen far-reaching changes in the provision of services, product offerings and types of providers as a result of technological developments. The goal in the coming years is to ensure that consumers continue to be protected in this changing environment when they are vulnerable, for instance with respect to products with a material long-term impact and service provision in a digital environment.

### Capital markets

Supervision of the capital markets has had to deal with radical changes in recent years, such as the introduction of new regulation (e.g. MiFID II)<sup>1</sup> and the arrival of numerous parties as a result of Brexit. The scale of our responsibilities has expanded, and there are now more parties subject to our supervision. The volume of supervisory data has increased accordingly. We have developed our capacity for data driven supervision of the capital markets in recent years.

Against the background of a sizeable expansion of the AFM's duties in the capital markets, the goal is to continue to ensure that the trading infrastructure is robust and that trading practices are fair.

### Asset management

The market for asset management is growing in importance. Bank finance is gradually being replaced by finance from the capital markets. In a lengthy period of low interest rates, asset management has a significant role to play in capital accumulation. In recent years, the AFM's supervision of asset management concentrated on aspects of governance and institutional requirements; in the coming period, the AFM will focus on ensuring that business models are sustainable and that asset managers exercise due care with respect to their clients.

### Auditing

In its supervision of audit firms, the AFM strives to ensure that statutory audits are of consistently high quality. In the past, the AFM has conducted reviews of the quality of statutory audits, it has encouraged the improvement of conduct and culture at audit firms and it has highlighted the structural weaknesses in the sector. These aspects of conduct and culture and structure will continue to be the basis of our supervision of quality in this sector. The AFM aims for a higher quality of audits and is engaged in the discussion of effective incentives for auditors and audit firms.

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<sup>1</sup> MiFID: Markets in Financial Instruments Directive



### AFM-wide priorities

To achieve its supervisory goals, the AFM has chosen three organisation-wide priorities that provide the direction for how the AFM will fulfil its mission in the long term.

#### Proactive

The most effective way to deal with problems at financial institutions is to prevent them from occurring in the first place. The AFM is continually exploring new risks and analysing the root causes of potential problems so that it can be proactive.

#### Data driven

In a sector and society undergoing rapid digitalisation, a data driven methodology is an important precondition for the AFM to be proactive in its supervision. The increasing volume of available data enables the AFM to identify risks more effectively, to have a more detailed understanding of the market and to better substantiate its interventions. For this, the AFM needs to ensure the quality of its data and substantially increase its competence in the field of data analysis. Its ICT infrastructure also requires substantial further development.

#### Influential

The AFM is already an important contributor to national policy discussions on essential supervisory issues, such as the proposed reform of the pensions system and the debate on the future of the audit sector. With the international interrelatedness of markets, institutions from outside the Netherlands are active in our market and Dutch consumers can purchase services from foreign institutions. In addition, new firms have become subject to the AFM's supervision as a result of Brexit. International cooperation is therefore becoming more important for effective supervision. The AFM intends to strengthen its position internationally and is increasing its commitment in this area.

### Professional organisation

We have worked hard to renew and professionalise our supervision in recent years. We will continue this effort in the years to come, including by applying our influence throughout the business chain. We are in close contact with supervised entities, politicians, consumer representatives and other interest groups and parties. In the interaction with institutions, careful exchange of information and the predictability of our processes are of key importance. In addition, we regularly evaluate our own performance and work together with others, such as other supervisors, in this respect. The findings of these evaluations form the basis for the continuous improvement of our supervisory and other processes. In combination, all these factors will contribute to the successful realisation of our strategy for 2020-2022.

We regularly evaluate  
our own performance  
and work together with  
others



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# Trends



External developments are a major factor in determining the direction of our supervision. The financial sector is innovating and becoming digitalised at a rapid pace, while dealing with changes in European regulation and political uncertainty. This section describes the five most important trends for our supervision. These are: digitalisation, macroeconomic developments, changes in European and other regulation, political uncertainty and the transition to a sustainable economy and society.





- *Digitalisation of the financial sector*  
The use of data is driving innovation in the financial sector. The existing institutions are still dominant and are cooperating with fintech parties. The big techs are also entering the market. External parties such as software developers are assuming an increasingly important role in the provision of financial services. The threat from cyber attacks is serious, underlining the importance of cyber security measures.
- *Macroeconomic developments*  
Interest rates have been at historically low levels for some time now. This continues to pose risk for the financial sector, for instance regarding the profitability of banks and life insurers. Low interest rates can also have negative effects in the form of increasing risks of excessive borrowing and an unbalanced search for yield.
- *Changes to European and other regulation*  
There has been a large volume of European regulation in recent years that materially affects the financial sector. Further changes are on the way, such as the revision of the pension system and the AFM's role in the formulation of recovery plans for central counterparties (CCPs) and insurers. In addition, regulation arising from the desire to create a capital markets union could boost the European capital market, which would benefit consumers and businesses.
- *Political uncertainty*  
Brexit continues to be a major cause of uncertainty in the financial markets. Previously identified risks, such as access to CCPs and UK broker-dealers, have now been mostly addressed. However, a number of other risks, including event risk, risks in financial services and the possibility of supervisory arbitrage, are still present. Outside Europe, the continuing trade tensions between the United States and China are the main source of increased political uncertainty. In combination with the macroeconomic developments, this means that the capital markets continue to be exposed to a turn in sentiment.
- *Transition to a sustainable economy and society*  
Climate change is increasingly impacting the economy and the financial sector. Demand for and supply of sustainable investments are growing rapidly. Investors are for instance looking beyond the hard figures and increasingly require information on companies' environmental performance (as well as whether their strategies and earnings models are future-proof).



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# Supervisory approach and philosophy



The AFM faces supervisory dilemmas on a daily basis, such as 'How can we meet the expectations of society?' and 'Should our supervision be primarily reactive or proactive?' Moreover, we work in a complex playing field: there are many different interests and interpretations, and the sector is constantly changing. In this context, we have to demonstrate that we are careful and vigorous, and that we are autonomous and connected. Our supervisory approach and philosophy describes how we operate and how we make our decisions.





The AFM has developed a [supervisory approach](#) and a supervisory philosophy in order to exercise supervision effectively. Our supervisory approach provides guidance to supervisors in daily practice, and is also designed to explain how the AFM exercises its supervision to the outside world.

The AFM supervises thousands of financial enterprises and a diverse range of products and markets, and therefore has to make choices and set priorities in order to use its capacity effectively. The AFM sets its priorities by continuous analysis to determine which problems in the market involve the most risk. Our supervisory approach describes how this risk-driven and problem-oriented approach works in practice. It also describes how the AFM's supervision is organised, and lists the formal and informal supervisory instruments at the AFM's disposal.

The supervisory philosophy provides basic principles that guide us when facing significant dilemmas that we encounter in our daily work. These basic principles thus form a universal basis for the exercise of our supervision. Our supervisory philosophy includes five principles for effective supervision:

1. We focus on risks and increase quality in the sector
2. We act as a sounding board for the sector, which is itself responsible
3. We take a long-term view
4. We look for sustainable and market-wide solutions
5. We include multiple points of view in our judgement

The AFM's role as supervisor is focused on market issues and risks



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## Financial services

Protection of consumers in vulnerable situations



AFM gives priority to the protection of consumers in vulnerable situations. This means that in its supervision, the AFM focuses on products and services that are more complex and involve greater long-term consequences and financial impact. The expertise and resilience of clients are also important considerations, for example the extent to which their decision-making processes may be influenced by biases. Major changes in how services are provided, for example due to digitalisation, require additional attention in this context.





### **Background**

The protection of financial consumers has been one of the AFM's key themes over the past decade. There has been significant progress in the supervision of the quality of financial services provision. 'Giving central priority to the customer's interests' has been the guiding theme in our supervision, and much new European and other legislation and regulation has been introduced that focuses mainly on consumer protection. Many pay-day loan providers and the issues around locked-up loans have been addressed, there is now a ban on binary options and the regulation relating to Contracts for Difference (CfDs) has been tightened. There will, however, always be a conflict between the interests of providers of financial products and services and the interests of consumers. A shift is occurring from traditional to digital service concepts, as a result of which distribution is becoming increasingly automated and the provision of services across borders is becoming easier. These rapid developments pose serious new challenges for the supervision of financial services at national and international level.

### **Central priority to the customer's interests and thematic reviews**

The AFM expects market parties to meet their responsibilities and design their services and product offerings with the customer's interests in mind. This responsibility does not end with the sale of the product in question; providers and intermediaries are expected to continue to fulfil their responsibility during the management phase. The AFM will accordingly supervise the provision of financial services on a thematic basis, such as its supervision of the issues relating to interest-only mortgages and the use of insights into consumer behaviour in digital decision-making environments. In addition, it is an absolute requirement that the organisation of financial enterprises is up to standard. The AFM will conduct focused reviews into this in the coming years.

### **Focus on products with material long-term effects**

In the AFM's strategy for 2020-2022, it is marked as a priority that products and services with material long-term effects should contribute to the consumer's financial well-being on a permanent basis. Products with material long-term effects are those that have a serious impact on the financial health of households, such as mortgages and pensions. Consumers are vulnerable if products are complex, or if the consumer is significantly less expert and resilient than the provider. The long-term effects of excessive lending are obvious in the case of credit products; mortgages have a material effect on the household budget and in the case of consumer credit, payments in arrears are often a sign of a decline into a lengthy debt problem. The service provision in relation to pension products also needs special attention, especially if the possibilities for individual freedom of choice in the pensions system are continued. The AFM will continue to be alert and proactive in its response to a change in the system.

### **Clear, customer-oriented digital environments**

The AFM expects market parties to ensure that processes relating to purchase decisions in a digital environment are clear and take account of the customer's interests, so that consumers are properly protected even in a digital environment. Digitalisation is changing the nature of the service provision and how the service is provided in many respects. Digitalisation presents opportunities, but it also raises new risks. These risks are greater in the case of more complex products and services. For instance, the use of algorithms has had a significant effect on the role of advisers, who may either disappear or be replaced by automated processes and digital sale environments. Algorithms also involve a risk of exclusion. This could be a problem for the customer's interests.



### **Compliance with institutional requirements**

Sufficient attention needs to be devoted to compliance with institutional requirements. These are the requirements with respect to the persons and processes at enterprises subject to supervision. A service provided with due care requires that the service provider's organisation, its basis, is up to standard. Fragmentation in the chain means that a specific approach to these basic risks is important. The AFM is thus removing blind spots and remedying the situation by increasing its supervision of requirements applying to institutions, such as the remuneration policy.

### **Supervisory convergence**

Lastly, financial supervision is emulating financial services and becoming more international. The far-reaching harmonisation of financial legislation in Europe seen in the past decade, such as MiFID II and the IDD<sup>2</sup>, has given a boost to the European financial markets. This also affects supervision. Supervisory convergence in the area of product governance and the provision of (digital) information are prominent items on the agenda of the ESAs<sup>3</sup>. The AFM is also expected to have data driven insight into the markets under its supervision and compliance with European lower regulation.

Sales processes in a digital environment should be clear and customer-oriented

<sup>2</sup> IDD: the Insurance Distribution Directive

<sup>3</sup> ESA: The European Supervisory Authorities



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## Capital markets

A robust infrastructure and fair trading practices



The supervision of the capital markets is expanding to include new parties, and focuses on a robust infrastructure and fair trading practices. The increasing automation of trading is a longer term trend that sets higher demands on the controlled and sound business conduct of market parties. In the shorter term, various parties are moving from the UK to the Netherlands as a result of Brexit. There has also been extensive new regulation introduced in recent years, including MiFID II and EMIR. Stronger supervision and the use of data in that supervision is needed to continue to ensure a robust trading infrastructure and fair trading practices.



<sup>4</sup> EMIR: European Market Infrastructure Regulation



### **Reliable information for the market**

For all types of financial instruments subject to AFM supervision and from order through to settlement, the parties concerned have to meet their responsibilities to ensure that trading is conducted fairly. Transaction prices must be established correctly and parties must have confidence in the market. For this, it is important that parties trade fairly and ensure that information in the market is reliable.

Our supervisory tasks are intensifying as a result of the greater variety of products being traded on trading platforms and by other market parties, and due to the greater number of capital markets institutions subject to supervision. In the coming years, this will lead to more supervisory activities, to combat unfair trading practices such as market abuse. For this, we will cooperate more closely with other supervisors in our investigations and we will adapt our supervisory methodologies. This will give us a better understanding of risks and developments in the most important sub-markets, products and institutions and therefore also trading behaviour.

### **The importance of stable institutions**

The stability of institutions is becoming increasingly important. The primary responsibility for fair trading practices, a robust infrastructure and combating market abuse rests with the institutions themselves. The AFM therefore expects institutions to structure their business processes in a way that contributes to achieving this. This includes the control of operational processes, IT systems and cyber security.

### **Improving data quality and data management**

The supervision of the capital markets is becoming more data driven. As a result of new European regulation, the AFM has large volumes of data on transactions in the capital markets at its disposal. The increasing number of markets and parties subject to supervision means that data driven supervision requires further development. For this, data quality and data management need to be improved; institutions need to deliver their data on time and ensure that these data are correct and complete. In addition,

the AFM will continue to develop its supervisory methodology in order to better assess risks and thus form a quantitative impression of the risks in the most important markets, products and institutions. New applications for supervision will also be developed on the basis of data, such as monitoring dashboards and the detection of market manipulation.

### **Making supervision more efficient**

The supervision of prospectuses, notifications and public offerings will be designed and implemented more efficiently. This will be achieved by performing these tasks in conformity with statutory tasks and by optimising processing times. Our activities will concentrate on the most serious risks and these tasks will be automated where possible.

### **International cooperation**

Capital markets institutions operate internationally. This means that supervisors need to cooperate more closely and harmonise their activities. Policy decisions at international level have national consequences (and vice versa). Moreover, market parties have similar questions for supervisors in various countries. A consistent response will provide clarity for anyone involved in the capital markets. In the coming years, we will devote additional capacity to increasing our influence in the international supervisory colleges that supervise both new and already licensed trading platforms. We will also take a more decisive role in international forums, including taking a more active role in addressing policy issues.

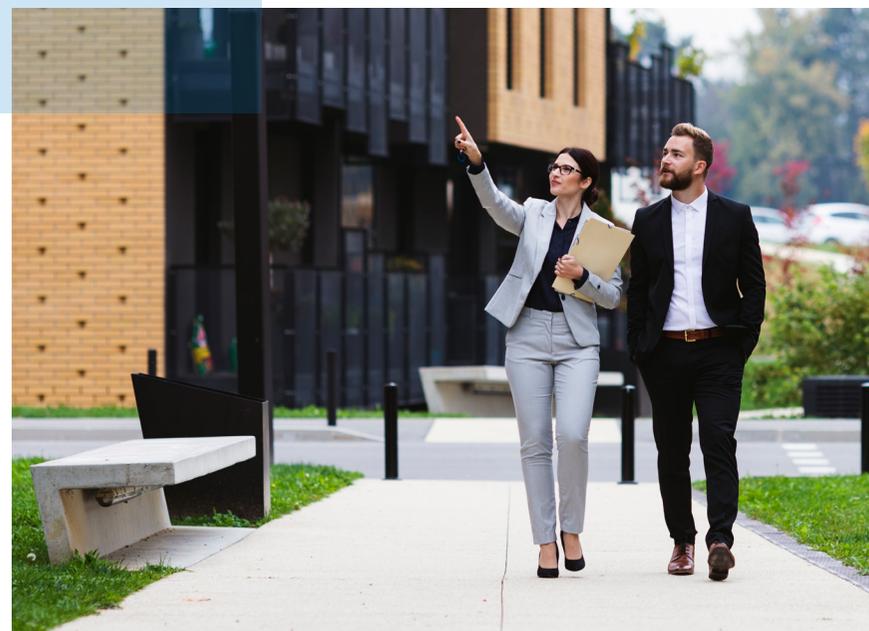
06

## Asset management

A sustainable business model for asset managers and due care for clients



The market for asset management in the Netherlands is growing in importance. Bank finance is gradually being replaced by finance from the capital markets. Despite the low level of interest rates, stricter prudential rules and reduced tax benefits, consumers are not yet opting in large numbers for asset management as an alternative to savings in order to accumulate capital. A lengthy period of low interest rates is, however, allowing asset management to play a more important role in capital accumulation through good advice and management of assets and an appropriate balance between risk and diversification. Low-cost alternatives such as passive investing are playing an important part in this. The European initiatives for a Capital Markets Union (CMU) will strengthen the role that asset management can fulfil. The AFM expects asset managers to operate their business model responsibly, with an awareness of the long-term social challenges and the interests of their clients.





### **Oversight by market parties that their business operation is controlled and fair**

The asset management landscape is undergoing radical change, which poses new challenges for supervision. Cross-border service provision is becoming much easier thanks to digitalisation and the harmonisation of legislation and regulation, and in the coming years digitalisation can significantly improve the efficiency of processes and create value through the use of data analysis. Asset managers are increasingly using chain parties for administration, risk management or custody services, partly due to the international specialisation of service provision. This increases the risks associated with outsourcing and concentration. The AFM expects market parties in this fragmented market to have adequate oversight that their business operation is controlled and fair throughout the chain.

### **Treatment of clients with due care**

The AFM strives to ensure that clients in professional asset management are treated with due care. Risk management, segregation of assets, investment processes and client processes need to be designed according to the size, complexity and risk profile of the activities. Costs need to be in proportion and transparent. Asset managers should pursue an investment policy that corresponds to their commitments to the investor. In this respect, sustainability has become a substantial element in the investment proposition and therefore also in risk management. The AFM maintains a critical supervision of the increasingly common claims made with respect to sustainable investing.

### **Continuity of individual enterprises and stability of the market as a whole**

Financial stability in the asset management market is crucial. The shift from bank finance to market finance has increased the importance of attention to financial stability in the asset management market. Dutch people rely heavily on asset management for their retirement provision or as a safety net for financial shocks. The stability of the market as a whole is an important focus of attention for the AFM, as well as the continuity of individual enterprises. In this market, asset managers, other financial institutions and the underlying

investments are all closely interrelated. The issues with respect to stability in asset management is part of the AFM's wider duty to ensure stability. In this context, the AFM also focuses on the risks to stability that arise from the capital markets, which could become significantly larger and more relevant as a result of Brexit. Conduct risks in (potentially) important financial markets that affect large groups of consumers or financial institutions fall within the responsibilities of the AFM.

### **More efficient supervision through data**

The supervision of the asset management market uses the opportunities presented by digitalisation and automation. Asset managers have to meet a large number of requirements with respect to their business operation, people and processes. For many of these requirements, supervision is becoming more efficient by obtaining insight into compliance through the use of data.

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## Audit

Improved quality of audits and contribution to effective incentives for audit (firms)



The supervision of audit firms continues to focus on improving quality. There is a continuing problem with the quality of statutory audits in the Netherlands and also worldwide. To encourage a permanent improvement in audit quality, the AFM will continue to review the quality of statutory audits and the realisation of a quality-oriented culture. In view of recent legal rulings, an effective statutory means of enforcement with respect to audit firms for deficiencies in individual audits is an important point for the AFM.





### Further development of the supervisory approach

The AFM will direct its supervision at influencing the role of audit committees and is reviewing its approach to case reviews. The AFM believes that audit committees need to play a greater part in improving quality, specifically by using their influence in the selection procedure for auditors and audit firms and mitigating perverse incentives in the auditor's earnings model. The AFM will focus more on influencing audit committees to fulfil this role. If it considers it desirable, the AFM will apply for additional mandate and/or statutory instruments. In addition, the AFM is continually renewing its review methodology and is studying how it can shorten review processing times and generate more 'data points' for the quality of statutory audits.

### Attention to the structure of the sector

The AFM is engaged in the debate on potential changes to the structure of the audit sector. The AFM draws attention to potentially perverse incentives in the structure of the audit sector that are an obstacle to a permanent assurance of high quality in audits. There is an ongoing debate on these incentives and vulnerabilities in the structure of the audit sector. The AFM is participating in this debate at national and international level. In the Netherlands, in the context of the review of Committee on the Future of the Audit Sector, and internationally in IFIAR<sup>5</sup> and CEAOB<sup>6</sup>, among others.

### Encouraging integrated reporting

Renewal and innovation will be welcomed, both in the sector and in supervision. The non-financial performance of enterprises is becoming increasingly important: enterprises need to include this in their reporting and auditors need to devote attention to this in their audits. The AFM wants to encourage integrated reporting, mainly with respect to honest and transparent reporting on sustainability. In addition, the AFM is further developing its data driven supervision of reporting.

### Lower priority for non-PIE audit firms

The AFM is willing to engage in the dialogue with the Ministry of Finance, industry associations and other stakeholders, to study the best option for

organising the supervision of non-PIE audit firms. The AFM takes the view that the independence and uniformity of supervision is not yet adequately ensured in the current supervisory structure with roles for the NBA and the SRA. Until now, the supervision of non-PIE firms<sup>7</sup> has been assigned a lower priority than the supervision of PIE audit firms. The AFM's capacity is limited and it assigns its resources to areas with the most significant social impact.

### International cooperation

The AFM wishes to further stress the benefits and need for international cooperation. The AFM devotes its attention primarily to the debate on the structure of the sector, review of audit quality indicators, influencing standards and the organisation of direct supervision of audit firms, including those operating across borders.

<sup>5</sup> IFIAR: International Forum of Independent Audit Regulators

<sup>6</sup> CEAOB: Committee of European Auditing Oversight Bodies

<sup>7</sup> PIE: Public Interest Entity

08

## Three AFM-wide priorities



The AFM will apply three general priorities that concern all areas of its supervision in order to achieve its supervisory goals in 2022. For all its divisions, digitalisation, internationalisation and fragmentation in the market will have significant effects. The continuing digitalisation of the sector presents opportunities to use data to better understand the market and improve the efficiency of our supervisory processes. The internationalisation of the sector makes international cooperation essential in order to influence this expanding and ever-changing playing field effectively. To achieve these goals, the AFM accordingly applies the following three priorities: 1) a proactive approach to supervision, 2) data driven supervision and 3) an influential role at both national and international level.





## 8.1 Proactive supervision

### General

The AFM is convinced that its supervision is more effective if it prevents problems arising rather than repairing the damage afterwards. The AFM is already familiar with this style of supervision and continues to build on this. A proactive approach means that the AFM looks ahead at trends and developments in the market, identifies potential risks and problems, and then addresses them proactively. We do this by consciously selecting the best way to influence the market on the basis of a clear methodology with the aim of preventing problems from occurring. The methodology explains how the AFM identifies material risks at an early stage, understands them, prioritises them and addresses them, with clear communication of its expectations to the market. This means that the AFM has to decide which problems are the most urgent, what it wants to see in the market and that even problems at the fringes of its mandate are critically evaluated, in order to ensure that they are adequately resolved, either by the AFM or by others. The AFM also actively engages in dialogue with the sector on developments in the market, society at large or in the field of regulation and supervision.

### Looking ahead

The AFM observes trends and developments in the market and identifies the risks and problems for its supervision. As a proactive supervisor, the AFM is aware of the newest products, players, business models and the risks they entail. It is important that the AFM monitors the market constantly, assesses developments and shares its observations with stakeholders. Market observations are an important instrument in this respect and are a point of reference against which developments can be put into context. In its methodology, the AFM has a structured method for evaluating risks with respect to products, distribution channels, institutions and markets. The AFM is also in contact with the market and external experts and publishes the risks that it considers to be the most significant, so that financial parties can themselves take action on the basis of these reports to mitigate risks and prevent problems.

### Clear expectations expressed to the market

For a proactive solution to problems, it is important that the essence of the problem is addressed. The AFM uses insights from the behavioural sciences and organisational culture to identify the core of a problem, to address this and prevent other problems that may ensue from occurring in future. The AFM expresses clear expectations to the market and thus places a responsibility on market parties to address and prevent the identified risks and problems. By expressing its expectations, the AFM prompts market parties to consider how best to reflect statutory and other norms and avoid a mechanical and minimalist interpretation.

### Close attention to problems on the fringes of our mandate

In today's complex digitalised and international playing field, there are risks on the fringes of the mandate of the AFM. These include the influence of parties outside the Netherlands, the creation of new fintech applications that come under the responsibility of various supervisors, and also services that are intentionally designed to circumvent supervision. The AFM wants to be sure that these risks are also dealt with, and accordingly works closely with other supervisors to ensure that problems are adequately addressed. In addition, the AFM can apply informal instruments to deal with problems on the fringe of its mandate, for instance by contributing to discussions on new legislation.

### Application of formal and informal supervisory intervention

The AFM uses both formal and informal supervisory intervention and knows when to intervene, and which form of intervention will be most appropriate. The AFM's actions are focused on preventing supervisory problems in the market and it has a wide range of instruments at its disposal. The AFM can influence market parties in various ways, both formally and informally. The priority is that the AFM motivates parties to deal with problems. The AFM also possesses the knowledge, expertise and experience to take enforcement action when this is necessary. The AFM has a policy on intervention that states when it should intervene, and what type of intervention is appropriate.



This policy reflects developments in the market, such as digitalisation and internationalisation, and will be further professionalised.

### **Expanding knowledge**

The AFM possesses the right knowledge, systems and other preconditions to realise its goals. Both specialist knowledge and experience among its supervisors and the right IT tools and systems are needed for the exercise of its supervision. The AFM will further expand this knowledge in the coming years. In its strategic HR policy, the AFM looks ahead to determine the knowledge it needs and ensures that its existing and newly recruited supervisors have such knowledge. The supervisors also have the instruments and systems necessary to be able to exercise data driven supervision.

## **8.2 A data driven supervisor**

### **General**

The AFM is raising its supervision to a higher level with the help of data so that risk identification, prioritisation and intervention can be as effective and substantiated as possible. The financial sector digitalises, produces and possesses a huge volume of data. For the supervisor, these data offer new market insights and also the possibility of exercising new and more effective methods of supervision. With the help of data, the AFM can monitor larger parts of the market and obtain granular insight into the players who are active, the products that are being sold and the clients who are being served. To strengthen its data driven supervision, the AFM follows the maturity model and the road map for data driven supervision. This means that data driven supervision is increasingly becoming the core of the supervisory process. Data driven supervision begins with the structural construction and strengthening of our data position in order to monitor the market in a consistent and scalable manner and detect signs of problems in the market. Supervisory duties can be prioritised by quantitative assessment of risks and then applying the available resources where the social impact will be the greatest. Finally, a better data position can be used for obtaining stronger evidence in cases of abuse and for the reporting on the effectiveness of the AFM. Data driven supervision will be

conducted more on the basis of issues arising from direct supervision, and thus increasingly become a core element in the supervisory process.

### **Building a strong data position**

The AFM is building a permanently strong data position. The AFM digitalises and harmonises the information that it receives. The AFM determines the data that it needs for its supervision and provides clear information to the market with respect to the data that have to be delivered to it and how this should be effected. The delivery of data by institutions is important for the AFM, and the AFM accordingly supervises this process as well. Data are archived in a structural manner and are accessible for use for supervisory purposes.

### **Prioritisation with data**

Data support the process of prioritisation at the AFM. The AFM can more effectively recognise patterns and risks in the market and at institutions on the basis of data and automated signalling tools. Among other things, this helps in the prioritisation and substantiation of supervisory risks. An up-to-date supervisory methodology is needed in order to identify risks from data. This methodology describes the risks that the AFM considers to be the most significant, how these are measured and lists the threshold values that have to be identified by the supervisors. The AFM will adapt its supervisory methodology more in line with a data driven supervisory approach in the coming years.

### **Stronger evidence with data**

Data are used to provide stronger evidence in investigations and in the reporting of the effectiveness of the AFM. Data are used to support the AFM's investigations, provide stronger evidence and substantiate the effectiveness of the work of the AFM. The AFM carries out investigations using robust investigative methods in which the use of data plays a central role. The AFM operates on the basis of hypotheses and calls up missing data to further substantiate risks. Data are also the basis for measuring the effectiveness of the actions of the AFM, on the basis of which the activities of the AFM are reported.



### 8.3. An influential player

#### General

The AFM has an influential position in both the national and the international playing field. In the Netherlands, the AFM has an influential role in the preparation of new financial legislation and participates in policy debates that are relevant to its responsibilities. The AFM also sees it as its duty to be aware of the impact of new policy on financial firms and to inform these parties of this in a timely manner. In addition, European regulation is very important for the Dutch financial market. Most new legislation now originates at European level. For fair financial markets in the Netherlands, it is thus important that the AFM exercises its influence in policy debates at European level as well. In these debates, the AFM promotes high quality supervision and consistent implementation throughout Europe. Furthermore, the AFM's importance in Europe is increasing, partly due to the arrival of new firms in the Netherlands as a result of Brexit. There will thus be increasing reference to the AFM with respect to capital markets regulation, but also on issues such as digitalisation and sustainability, where the AFM is among the leaders in Europe. This requires international cooperation with other European supervisors. The AFM also works closely with the British supervisor the FCA, as many institutions will continue to operate parts of their business in London.

#### Influence in national policy debates

The AFM contributes to national policy debates with the aim of finding the most efficient solution to the key risks in the market. For the AFM, it is important that it has the right powers to be able to resolve these key risks. In addition, the AFM's expertise in the field of financial supervision can make an important contribution to improving the quality of regulation. The AFM is accordingly represented in relevant policy forums and contributes to national policy discussions. In this respect, it is also important that the AFM has sufficient resources at its disposal to be able to perform its duties and that its role continues to be independent. For this, it is important that the AFM actively communicates the results it achieves. The AFM already has an influential role in the preparation of national legislation, and will continue to work for fair financial markets in this capacity.

#### An international approach to risks

At international level, the AFM focuses on issues that are important for the Netherlands. The Dutch financial sector is inextricably linked to the European market. Dutch parties operate internationally and Dutch customers are served by European parties. As a result, the AFM has to deal with risks to the Dutch market that arise from this international interrelatedness. International cooperation is needed to deal with these risks and the AFM's international stance is therefore focused on this. The AFM has a clear vision as to how these risks should be addressed and promotes this vision at international level.

#### An internationally leading role

The AFM represents the Netherlands in international forums with high-level knowledge and cooperates effectively. The AFM has a leading role in the areas of capital markets supervision, consumer protection, digitalisation, sustainability and the supervision of auditors. The AFM accepts this responsibility and works towards further promotion of its ideas in these areas in Europe. Cooperation with other supervisors is also essential for effectively solving problems. The AFM identifies like-minded international partners for the purpose of collective action and to learn from each other.



09

# Professional organisation



We have worked hard to renew and professionalise our supervision in recent years. We will continue this effort in the years to come.





### **Dialogue with the sector**

Among other things, this involves applying our influence throughout the chain. We are accordingly in close contact with supervision entities to supervision, politicians, consumer representatives and other interest groups and parties. A constructive dialogue with the sector is a necessary precondition for identifying problems in the market in good time (proactively) and being able to take effective action (influence).

### **Care in the exchange of information and predictability of processes**

In the interaction with institutions and other stakeholders, careful exchange of information and the predictability of our processes are of key importance. For instance, this concerns the time needed for legal processes, the coordination of ongoing projects at institutions and consistency in defining our position. We also clarify the checks and balances that the supervisors have to consider in the performance of their duties, thus increasing the predictability and effectiveness of our processes.

### **Continuous Improvement**

In addition, we regularly evaluate our own performance and work together with others, such as other supervisors, in this respect. The findings of these evaluations form the basis for the continuous improvement of our supervisory and other processes. In combination, all these factors will contribute to the successful realisation of our strategy for 2020-2022.

A constructive dialogue with the sector is a necessary requirement



**Do you have questions or remarks about this publication?**

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